

Acquisition Reform A Mandate For Change

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THE PROBLEM - WHY CHANGE IS NECESSARY

The Post-Cold War era poses a new set of political, economic, and military security challenges for the United States: regional or limited conflicts; proliferation of weapons of mass destruction, both nuclear and non-nuclear; risk to its economic well-being; and the possible failure of democratic reform in the former Soviet Bloc and elsewhere. The President and Secretary of Defense are committed to maintaining the U.S. military's edge over opponents. That means maintaining superior people, training, logistics, and weapons system technology the advantage the U.S. now has that allows us to deter aggression, and to prevail quickly with minimum casualties when required to employ force. The President and Secretary of Defense are committed to maintaining a lean, high-tech, agile, ready-to-fight military force during a time in which the threats are changing and unpredictable. By 1997 defense spending will decline in real terms by over 40% from 1985, and advanced technology is increasingly available to the world.

The Department's Bottom-Up Review, concluded last September, provides a vision for the nation's future defense needs. It is a blueprint for meeting the security challenges of the post-Cold War world - responding to threats anywhere in the world where U.S. interests are at risk. DoD will not be able to carry out this blueprint, however, without dramatic changes in its acquisition processes -- from determining what the department needs to logistics support and reutilization requirements.

It is not difficult to see why change is imperative. Stories illustrating the need for reform abound. For example:

DoD is Unable to Acquire State-of-the-Art Commercial Technology

A commercial company was planning to introduce a radio with special encryption features sought by DoD. Because the item had not been sold in substantial quantities to the public, it could not qualify for an exemption to DoD's requirement that the company provide cost data. Since the company did not generate such information for their commercial customers, it would have had to set up a new accounting system to track and verify the information if it wanted to sell the radios to DoD. It couldn't afford to do that. The result was that DoD was stuck buying old technology while commercial customers bought the new, more capable radios.

DoD is Often Unable to Buy from Commercial Companies -- Even When Their Costs are Cheaper or DoD Must Buy a Commercial Product Because it is the Only One They Can Get

A military hospital wanted to buy aspirin. The low bid was \$3.98 per unit. DoD ended up having to buy from the next lowest bidder -- for \$4.40 per unit, because the low bidder was a commercial company that refused to disturb its long-standing subcontractor relationships to fulfill DoD requirements that a certain percentage of its subcontractors were small, disadvantaged businesses. The additional cost to DoD was \$107,000 over the life of the contract.

The Air Force attempted to negotiate a new contract with Boeing to supply spare parts for its military version of a commercial aircraft. Boeing was only manufacturing the spares in its commercial division, which did not meet the requirements for doing business with the government. In January, 1988, Boeing first notified the Air Force that it would need a commercial item exemption in order to provide these spares. It took until June, 1992 -- three and a half years - until the Air Force and Boeing were able to agree on contract terms and conditions. During that time countless hours were spent by the contractor, the Air Force, and OSD personnel attempting to determine which of the 278 clauses in the Air Force contract could be waived. They finally received waivers on approximately 11 clauses.

Commercial divisions of a major defense electronics company simply refuse to do business with the government. They cite several reasons: their commercial division accounting systems cannot provide the cost data required by DoD; they don't want to incur the added cost of complying with government-unique terms and conditions; they are wary of giving the government the right to audit proprietary cost and financial information; and fear losing their commercial proprietary data and software. Because many of these requirements are required to be "flowed down" by a prime contractor to its subcontractor, and there is no exception for inter-company transfers, not only can these divisions not sell to DoD, but they cannot transfer their parts to divisions of the company that do sell to the government without changing their commercial processes to accommodate the government requirements. This means that the company either cannot use its own company's semiconductors, or cannot charge the government for the components, because the semiconductor division of the company does not have an approved government accounting system. One company projected it will have included over \$1,000,000 worth of semiconductors at no cost to the government on just two current DoD programs.

DoD's Costs of Doing Business are Too Great

DoD sent out a solicitation for a quantity of ant bait expected to cost \$25,595, based on the last purchase made. This meant that DoD had to use the standard, lengthy solicitation procedures rather than existing streamlined procedures for "small purchases" -- those \$25,000 or less. The solicitation was 29 pages long, and it took 227 days to award the contract. As it turned out, the lowest bid came in under \$25,000. Had the threshold for "small purchases" been higher, the contracting officer would have been able to use simplified procedures at the outset, and the contract could have been awarded in 27 days instead of 227.

As a 1991 report by the Center for Strategic and International Studies, concluded, the existing acquisition system:

"[R]esults in higher prices to DoD (even when lower-cost commercial alternatives exist for the same requirements), loss of a broad domestic production base that could be available to defense for peacetime and surge demands, and lack of access to commercial state-of-the-art technologies. Additionally, the wall between engineers and scientists engaged in commercial and military work impedes the kind of shoulder-

to-shoulder contact that is the essence of technology transfer and that is basic to achieving greater job stability and growth opportunities for the U.S. work force." To meet the new national security challenges (political, economic, and military)

DoD must -

- Maintain its technological superiority, and a strong, globally competitive national industrial base that can support the nation's future defense needs, by being able to: rapidly purchase commercial and other state-of-the-art products and technology; assist in the conversion of defense-unique companies to dual-use production; aid in the transfer of military technology to the commercial sector, and preserve defense-unique core capabilities.
- Reduce acquisition costs (including DoD's overhead costs) through the adoption by DoD of business processes characteristic of world-class customers.

Maintaining Technological Superiority and A Strong National Industrial Base

The United States must maintain Its military technological Superiority, and maintain a strong, globally competitive national Industrial base that can support DoD's current and future needs.

While DoD drove technology developments in many areas for years, today the pace of commercial technology advancement in many sectors far exceeds government sponsored technology efforts. Commercial technology advancements are outpacing DoD sponsored efforts in the same sectors that are key underlying technologies for military superiority (e.g., computers, software, integrated circuits, communications, and advanced materials). The current development and production of DoD systems takes too long. The design cycle for commercial technology is approximately 3-4 years, in DoD it is 8-10 years. Many DoD systems are technologically obsolescent at the time they are fielded.

DoD must have unimpeded access to commercial technologies more quickly than other countries if it is to maintain its technological superiority. Yet, many current laws and regulations are barriers to DoD's purchase of state-of-the-art commercial items, the conversion of defense companies to making commercial products on a competitive basis, and the integration of the defense and commercial industrial bases.

The following are most often identified as the barriers:

- Unique laws and regulations imposed on government contractors, such as: government cost accounting standards; the requirement to provide product cost data; record keeping and reporting requirements; audit and oversight requirements (industry fears having to give the government access to competitively sensitive financial data); socioeconomic and mandatory source requirements; requirements for rights in

technical data; security requirements; and military-unique product and process specifications and standards.

- The instability of the Department's requirements and budget which makes it difficult to predict the market.
- Imposition of government-unique rules on commercial subcontractors.
- The government's right to terminate contracts at will.
- Industry's perception there is a tremendous risk that a contractor will inadvertently fail to comply with a government rule or regulation that will lead to criminal or civil penalties, and a loss of the company's good name in the commercial marketplace.

Companies that do both commercial and government business often are forced to segregate their facilities to ensure they can track, monitor, and report compliance with government requirements, and account for inventories of components traceable to government progress payments and their manufacturing origin. If the facilities are not segregated, the need to ensure compliance with government requirements adds to the company's overhead costs, typically for both military and commercial products, since once the facility has the compliance systems in place they are generally applied to the entire facility. These additional costs, of course, make the company's commercial and military products less competitive in the global marketplace.

In the past many companies were willing to accept these additional costs because of the large volume of sales to DoD, and the fact that the government reimbursed them for the costs on products it purchased. However, as DoD's share of many contractors' sales continues to shrink, the companies are often no longer willing to accept the additional costs and production inefficiencies associated with complying with government administrative requirements. The cost is too high in today's competitive environment

The semiconductor market is a perfect example of this situation. In 1965 DoD accounted for over 75%, of all U.S. semiconductor purchases. By 1995, the Semiconductor Industry Association predicts that sales to DoD will be around 1% of all U.S. company sales. When DoD sales are such a small part of their market, companies are less willing to let the government dictate to them the terms and conditions under which they will sell their product. They would rather concentrate on their commercial business or sell their products to the government through third parties as a means of avoiding the unique government rules and regulations.

In addition, with a procurement budget that has declined more than 50% in real terms since 1986, DoD and the nation can no longer afford the luxury of maintaining a totally unique defense industrial base. The sharp decline in defense business, and the resultant mergers, acquisitions and bankruptcies of defense companies, is causing a dramatic shrinkage in the defense industrial base. Defense companies that are now supporting our existing weapons systems may not exist when we need them in the future. A reconstituted or larger defense production and logistics capability, if necessary, would have to be based on a

industrial base composed primarily of companies producing commercial or dual-use products, many of whom do not or will not do business with DoD because they will not alter their traditional business practices to comply with government-unique rules and regulations.

Finally, the burden of defense reductions is felt most sharply by those companies who rely heavily on DoD for the majority of their sales, and small businesses. Those companies who are most dependent on defense business are laying off hundreds of thousands of employees. This is not a temporary layoff pending an up-swing in the economy. These jobs are gone for good unless the company can convert to producing for a commercial market that will make up for the decline in defense business, or adopt another strategy to accommodate reduced defense expenditures while remaining a DoD-only supplier. Small businesses not only disproportionately feel the loss of business revenue, but also the unique burdens placed on government suppliers. They least of all can afford to bear the spillover of additional overhead costs of doing business with the government -- the additional employees to ensure compliance, lawyers to explain government-unique laws and regulations, and the legal risks associated with an inadvertent failure to comply with a rule foreign to commercial business practice, but required when selling to DoD -- onto their commercial products. We must do everything in our power to remove these burdens.

Reducing Acquisition Costs Through Adoption of Business Practices Characteristic of World Class Suppliers

DoD must reduce its acquisition costs through adoption of business processes characteristic of world-class customers (including processes that encourage its suppliers to do the same).

The Carnegie Commission on Science, Technology and Government, using an indirect measure of the cost of the DoD regulatory system, calculated that the overhead, or management and control costs, associated with the DoD acquisition process were about 40% of the DoD acquisition budget, as compared to 5% to 15% for commercial firms. A Radical Reform of the Defense Acquisition System (December 1, 1992). This figure included both the government's internal costs, and the costs borne by DoD contractors and ultimately reimbursed by the government.

An Office of Technology Assessment study pegged the costs of DoD's regulatory maze at \$15 to \$75 billion, and concluded that the benefits could not be worth this additional cost. *Holding the Edge: Maintaining the Defense Technology Base, Volume II Appendix*, CCGPO (April, 1989). Other studies have indicated that DoD contractors incur additional costs on government contracts, for identical items being sold to commercial customers, of about 30% over their commercial contracts. *Integrating Commercial and Military Technologies for National Security: An Agenda for Change*, Center for Strategic and International Studies (Washington, D.C., April, 1991).

The problem is that DoD's acquisition system is a complex web of laws, regulations, and policies, adopted for laudable reasons over many years. For example:

- Military specifications were adopted to ensure DoD got a quality product that would meet the users needs while using a procurement process that would allow it to buy from the lowest bidder, and to ensure standardization to enable ease of logistics support;
- Cost or pricing data requirements were established to ensure the government received the same information the contractor had, for use in negotiating a fair and reasonable price;
- Cost Accounting Standards were adopted to provide accounting criteria that would result in comparable costs for like circumstances within a company and to ensure contractors properly allocated costs to DoD contracts;
- Checks on the government's authority were established to in essence "protect the people" (in this case suppliers), from certain government demands, such as the inappropriate use of fixed-price research and development contracts;
- Rights in Technical Data have been requested to ensure the government can operate, repair and maintain its equipment without fear of being held hostage to a sole-source supplier for spare parts and to obtain additional equipment and spare parts at reasonable prices through competition;
- Laws such as the Davis-Bacon Act, requirements to use small business, and buy only American-made products, were adopted to further a particular public interest; and finally,

While each rule individually has (or had) a purpose for its adoption, and may be important to the process as a whole, it often adds no value to the Product itself, and when combined, contributes to an overloaded system that is often paralyzed and ineffectual, and at best cumbersome and complex. If there were any doubt that the current system exacts a significant cost in terms of performance, quality, innovation, and prices the government pays, one need only ask the government's senior acquisition executives. In a recent U.S. Merit Systems Protection Board survey, a majority of Senior Executive Service members in the federal government stated "that the procurement process frequently results in procurement decisions that are neither cost effective nor in the best interests of the Government". Workforce Quality and Federal Procurement: An Assessment (July 1992).

Thanks to the ability and dedication of the thousands of acquisition professionals in the Department of Defense, and the assistance of many contractors, DoD has been able to develop and acquire the best weapons and support systems in the world - and win the Cold War. DoD and contractor personnel accomplished this feat not because of the system, but in spite of it. But they did so at a price -- both in terms of the sheer expense to the nation and eroded public confidence in the DoD acquisition system. It is a price the nation can no longer afford to pay.

While there have already been reductions in the acquisition workforce, continuing reductions in both military and civilian personnel and the need to reduce DoD's infrastructure mean that there will be further reductions in the acquisition workforce. DoD cannot accommodate these reductions without making changes in the current acquisition process. It must reduce the cost of the acquisition process by the elimination of activities that, although being performed by many dedicated and hardworking personnel, are not necessary or cost effective in today's environment.

No one is suggesting that there can be a wholesale deletion of safeguards that have been designed to ensure the integrity of the government acquisition process, nor the wholesale removal of laws intended to further the social policies of this great nation. Rather, DoD must advocate a balancing of the risk associated with reducing oversight and the cost to both industry and the government of compliance. In the case of social programs, the costs of applying these policies without excluding particular types of purchases, must be balanced against the contribution to be made by requiring compliance without exception.

There are other problems that must be solved. The existing DoD acquisition system not unlike that of many companies in the U.S. and around the world -- is based on outdated management techniques and philosophies. These include:

- Specialization, which led to economies of scale, as the most efficient way to produce products;
- Rigid lines of authority and reporting;
- Creation of rules or practices to address every contingency, if possible;
- Extensive paperwork to document that appropriate actions occurred;
- Detailed design and "how-to" specifications as the only way to ensure an acceptable product, and to ensure a "level" playing field for competition;
- In-process inspections, audits and reviews as the most effective means to assure compliance with the system; and,
- Programming people to conform to established procedures ensured that systems would be predictable, workable, and safe.

The result of these philosophies, however, as authors Michael Hammer and James Champy noted in their book, *Reengineering the Corporation: A Manifesto for Business Revolution*, is a system that is less than perfect in today's world. Systems of this type: create functional stove-piping in which no one person is accountable for an entire process; result in so many hand-offs during staffing that errors and wafting time dominate the system; and, make the ability of any one person to change the process small if not impossible. This system is at least partially to blame for the characterization by one senior service acquisition official that the DoD acquisition hierarchy had an unquenchable appetite for data and paperwork, was quick to second-guess decisions, and worse yet, revisited decisions endlessly.

People are encouraged to conform - to follow the rules, to document their actions, and

to avoid risk, rather than innovate and use good business judgment. The system rewards those who follow the rules and avoid risk. And it allows everyone to point the finger at someone else in the process -- Congress points to DoD's management, DoD points to Congress, and people within the services point to OSD leadership.

The layer upon layer of organizations, legislation, regulations, policies and oversight, is an impediment to DoD's adoption of business processes that are characteristic of world-class customers today. Most companies have begun to recognize that in today's world flexibility and agility are more important than efficiencies achieved by specialization and other benefits attributable to the old management techniques.

DoD is unlike most commercial companies. It is populated by military and civil service personnel who have a different personnel system than most companies. Senior political appointees rotate frequently. There is generally no competition or threat to the organization's continued existence. There is no profit and loss sheet -- no "bottom line." No commercial company is scrutinized like DoD is scrutinized by Congress and the general public. And no commercial organization utilizes the acquisition process to achieve social goals to the extent required of government agencies.

Yet the critical management issues are the same. There are too many people in the organization. There are too many regulations. There is resistance to change and a suspicion of process management. There is considerable "stove-piping" of functions and personnel, and massive coordination requirements. There is a lack of accountability, flexibility, and agility in the system. And there are few incentives to take risks.

THE SOLUTION - A VISION FOR THE FUTURE

The Clinton Administration has proposed the first steps in a broad plan to re-invent the federal acquisition system. The National Performance Review, led by Vice President Gore, provided federal agencies with the following guidelines for their procurement systems:

- Move from rigid rules to guiding principles (encourage innovation).
 - Get bureaucracy out of the way (adopt pilot programs; raise the simplified acquisition threshold; change government-unique laws to exempt certain types of acquisitions).
 - Give line managers more authority and accountability (reward results, not just compliance with rules; focus on the customer).
 - Give line managers expanded access to competitive sources of supply (use purchase cards).
- Foster competition, commercial practices, and excellence of vendor performance (increase reliance on the commercial marketplace; integrate the industrial base; increase use of electronic commerce; increase use of contractor past performance).

These guidelines go hand-in-hand with the Presidents plan for economic development in the technology sector - an issue critical to the maintenance of a national industrial base that can provide DoD with state-of-the-art technology. Technology for America's Economic Growth, A New Direction to Build Economic Strength, tasks the federal government to reform its procurement policies by:

- Giving priority to commercial specifications and products.
- Investing in new technologies to facilitate their commercialization.
- Procuring innovative products and services incorporating leading edge technologies. o Evaluating bids and proposals on a life-cycle basis rather than initial acquisition price.
- Limiting government acquisition of rights in technical data.
- Using performance based contracting strategies that give contractors design freedom and financial incentives to be innovative and efficient.

Using these guidelines, and the recommendations of The Advisory Panel on Streamlining and Codifying Acquisition Laws ("Section 800 Panel"), the Defense Science Board, numerous commissions, and experts within the Department, DoD has developed its vision of a re-engineered acquisition system. This system will ensure DoD will be able to maintain its technological superiority and a strong, globally competitive national industrial base that can support DoD's future needs, and, DoD will be able to reduce its acquisition costs. This vision cannot be achieved through process improvement only. Because the world in which DoD now must operate has changed beyond the limits of the existing acquisition system's ability to adjust or evolve, we must have a revolution - the system must be totally reengineered. If DoD is going to be capable of responding to the demands of the next decade, there must be a carefully planned, fundamental re-engineering or re-invention of each segment of the acquisition system.

To maintain its technological superiority in today's environment DoD must:

- Be able to rapidly acquire commercial and other state-of-the-art products and technology, from reliable suppliers who utilize the latest manufacturing and management techniques;
- Assist in the conversion of U. S. defense-unique companies to dual-use production; Aid in the transfer of military technology to the commercial sector; and, o Preserve defense-unique core capabilities (e.g., submarines, armored vehicles, and fighter aircraft).

DoD must integrate, broaden, and maintain, a national industrial base sustained primarily by commercial demand but capable of meeting DoD's needs.

To reduce acquisition costs, DoD must be able to adopt business processes characteristic of world class customers (including processes that encourage suppliers to do the same). DoD must also be freed from applying government-unique terms and conditions on its contractors whenever possible.

CONCLUSION

Acquisition reform shares a common border with many of our most Important goals: saving the taxpayer money; reinventing government; strengthening our military; and Improving our economy. Removing requirements that are uniquely Imposed on federal contractors Is the single most Important step DoD, the Administration, and Congress can take to help defense contractors compete successfully In today's global commercial marketplace, to ensure DoD will have access to a national Industrial base that can meet Its needs, to ensure DoD will have access to the latest state-of-the-art technology, and to assist DoD in reducing Its acquisition costs.

HOW TO RE-ENGINEER THE ACQUISITION SYSTEM

The re-engineering process must be: viewed through the framework of what DoD buys, -how it buys it, and under what terms and conditions; while considering the goal of maintaining DoD's technological superiority and a strong, globally competitive national industrial base, and reducing acquisition costs through adoption of business processes characteristic of world class customers today.

DoD must:

Requirements Determination and Resource Allocation (what to buy)

- Ensure the translation of mission needs/requirements into stable, affordable, environmentally sound, technically feasible, and best value solutions to a deficiency in current military capability or an emerging need, through a reexamination of the way DoD allocates its resources and establishes its needs/requirements. This process necessarily encompasses an assessment of cost, schedule, and performance risks, as well as national industrial base considerations.
- Strengthen and enforce the preference for commercial items and ensure that requirements for systems, sub-systems, and non-systems acquisitions (including services) are stated in terms of required performance; and ensure that DoD-unique product specifications that inhibit the purchase of commercial items (either systems, subsystems, components, or services) or dictate to a contractor how to produce a product or provide a service are not used, unless DoD-unique product or process specifications or standards are the only practical way to ensure the users needs are met.
- Provide for the timely infusion of new technology so that new and existing systems are fielded with the latest technology available. This will be accomplished through prototyping, limited fabrication of advanced systems to determine producibility and operational effectiveness, and evolutionary development and infusion of new capabilities in long-term stable production programs. As a result, the time needed to introduce new capabilities will decrease, excess contractor capacity will be minimized, and lean, agile, production

processes will be encouraged.

- Provide for the appropriate participation of potential suppliers in DoD process action teams and working groups beginning at the earliest point in the cycle - when establishing the system requirements.
- Support increased use of dual-use technologies, sharing of technology with the commercial sector, and purchases of commercial products, to allow DoD to leverage its investment with that of the private sector (a critical factor given the reduction in the defense budget).

DoD Acquisition Process (how we buy)

- Simplify the acquisition process and focus on continuous process improvement.
- Be more flexible and agile to be able to respond to the constantly changing threat and the pace of technology advancements. DoD needs to develop, the most efficient, timely, and effective means of acquiring state-of-the-art goods and services to meet its needs at the best value to the government (in the most cost-effective manner, over the life-cycle of the product or service), while protecting the public trust, an enhancing certain government socio-economic goals -- such as increased small and disadvantaged participation in the DoD market.
- Be able to balance the need for a particular policy or law to protect or further a government interest with the need for efficiency and cost savings, and with the need to innovate and manage risk rather than avoid it (DoD cannot afford to maintain a "perfect" system).
- Tailor acquisition policies and processes to the type of acquisition (e.g., commercial items, research, development, major systems acquisitions with little risk, with significant technical risk), rather than the current "one-size-fits-all" or "menu" approach, and provide 'preferred approaches' rather than mandatory policies (to ensure acquisition decision makers are provided additional guidance on appropriateness of certain clauses and requirements).
- Ensure that oversight, testing, and inspection (both internal and external), when necessary to ensure compliance with enunciated policies or requirements, is performed in the least obtrusive manner necessary to add value to either the overall process or the particular acquisition, consistent with the risk of impact to the government in the absence of such oversight.
- Ensure that DoD organizations (with the exception of those organizations whose mission it to perform inspection), are value-added team participants, not inspectors, both in relation to other organizations in the department, and with respect to DoD's suppliers.
- Shift from a management philosophy that attempts to achieve high quality and performance through after-the-fact inspections, to one that prevents defects through controlling its processes, and reviewing the process controls of its contractors (focus on process control rather than hands-on inspections).
- Improve its ability to develop and transfer technology from defense laboratories to commercial companies.
- Ensure that reporting requirements, when necessary to ensure compliance with policy ,

include requirements for data that already exists and can be collected without undue additional administrative burdens, to the maximum extent practicable.

- Ensure that policies and processes are structured so that the fewest number of people are involved in a given process, and the need for reconciliation or coordination is minimized.
- Ensure that the acquisition process is responsive to customer needs in a timely manner.
- Increase teamwork and cooperation to ensure sharing of "lessons learned" and prevent "reinventing the wheel" within the government and industry.
- Encourage innovation in products and practices, both in government and industry (e.g., switch from serial design and production to a concurrent process with integrated functional teams through increased use of Integrated Product and Process Development, concurrent engineering, agile manufacturing techniques, information technology, statistical process control, and other commercial practices), even if it will result in occasional mistakes.
- Encourage risk management rather than risk avoidance.
- Ensure that reductions in the acquisition infrastructure, including personnel and organizational changes, are made on the basis of changes in the acquisition process, rather than a "meat-ax" approach to reach arbitrary targets.
- Substantially reduce the time it takes to acquire products and services.
- Make maximum use of technology to facilitate and enable re-engineering of the acquisition process.
- Establish clear measurements of system responsiveness.
- Eliminate functional stove-pipes and replace them with integrated program teams that provide the necessary cross section of functional expertise to address and resolve program issues at the lowest possible management level.
- Empower people by providing appropriate education and training, moving decisions to the lowest level possible, and providing appropriate guidance, not rules.

Contract Terms and Conditions

- Adopt the principle that, when purchasing a commercial product or service, the government shall not impose on its contractors or subcontractors any law, regulation, policy, practice, process, or procedure, standard, specification (*terms and conditional,

that are unique to the government.

- Adopt the principle that no government-unique terms and conditions will be imposed on DoD contractors or subcontractors, unless that particular aspect of the buyer-seller relationship is not adequately "regulated" by market forces, the financial and ethical integrity of the government acquisition process is not adequately protected, or the furtherance of national domestic policies justify the use of a government-unique term or condition. If so, there should be a balancing of the governments interests with the cost to the government and industry of applying the government-unique provision.
- Ensure that it buys on the basis of best-value and rewards past contractor performance.
- Avoid cost analysis and utilize market-based tools other than direct competition between like products, to determine a fair and reasonable price (e.g., comparison of price of new breakthrough technology with cost of technology that would be replaced; or comparison with alternative options to satisfy a need other than through the acquisition of that particular item). Transition from a cost-based system (primarily focused on justifying costs, not reducing them) to a price- or value-based system (price based on value to the customer - whatever the market will bear) to the maximum extent possible.

MAKING REFORM A REALITY

Because of its complexity, a major overhaul of the acquisition system can not happen overnight. Many before have tried to fundamentally change the system and failed. The key to success is, that in addition to identifying the need for change, developing proposals for change, and enunciating the guiding principles for a new acquisition system, DoD's current senior leadership is committed to ensuring that changes will be accepted and institutionalized.

A Deputy Under Secretary of Defense for Acquisition Reform (DUSD(AR)) has been appointed to be the focal point for the development and implementation of a coherent and practical step-by-step plan for re-engineering each and every segment of the acquisition system. The DUSD(AR) has a small dedicated professional staff to lead and coordinate efforts to address the priority change areas identified by the Department's senior management. The Office of the DUSD(AR) will also follow-up to ensure implementation of recommended changes. The staff is purposely small to foster reliance on integrated decision teams made up of individuals who are actively involved in the day-to-day acquisition process, and who are in the best position to develop specific plans for change.

The DUSD(AR) chairs a DoD Acquisition Reform Senior Steering Group, composed of the Vice Chairman of the Joint Chiefs of Staff; the DoD General Counsel; the Comptroller, the Director, Defense Research and Engineering; the Director, Program Analysis and Evaluation; the Assistant Secretary for C31; Director of the Defense Contract Audit Agency; the DoD Inspector General; the Directors of Defense Procurement and Acquisition Program

Integration; the Service Acquisition Executives; the Director, Defense Logistics Agency (or individuals authorized to act on their behalf in representing the position of their organization). The Steering Group members make recommendations on proposed acquisition reform goals and objectives, further identify areas for change, assist in establishing priorities, designate experts from their activities to serve on process action teams And working groups, make recommendations to the DUSD(AR) on issues that could not be resolved by the teams, coordinate proposed actions within their organizations, and ensure implementation of final plans of action within their organizations.

Members from other organizations with acquisition authority or interest have been invited as advisors to the Steering Group. including the offices of: other DoD agencies with acquisition authority; Legislative Affairs; Public Affairs; the Defense Systems Management College; Office of the Director, Acquisition Education, Training and Career Development; the Office of the Director of Operational Test and Evaluation; the Office of the Director, Test and Evaluation; the Office of the DUSD (Economic Security); the Office of the DUSD (Environmental Security); and the Office of the Director, * and Electronic Data Interchange (CALS & EDI). By invitation, the following organizations will be asked to participate when common interests converge: representatives from other interested DoD activities; Heads of Contracting Agencies; Program Executive Officers and Program Managers; Commanders of the Service Commodity Commands (e.g., ESC, ASC, TACOM, MICOM, NAVSEA, SPAWAR); other Federal Agencies and entities (such as the Office of Federal Procurement Policy, the National Economic Council, and the National Performance Review); and Congress.

Process action teams (PATs) and working groups, which will be utilized to develop reengineering plans, and are key to the success of the acquisition reform effort. will be integrated decision teams -- cross-functional, cross-service and cross-agency. They will be responsible for:

- Analyzing a current practice;
- Identifying the costs (money, time, personnel) associated with that practice;
- Identifying alternative approaches consistent with the principles of the new acquisition system;
- Identifying incentives to make the change to the new practice;
- Recommending the best option for addressing the issue;
- Developing any new legislative, regulatory, or administrative changes required to implement proposed options;
- Developing measures of success in making the changes so DoD can track progress;
- Developing specific implementation plans, including training of DoD personnel; and Developing a process for follow-up to ensure the changes have been institutionalized (in particular to identify incentives and other mechanisms to ensure change to, and compliance with, the new processes and procedures).

The process action teams and working groups will include operational experts and staff advisors (as identified by the DoD Steering Group) from OSD, the Military Departments, and the Defense Agencies. The teams will also seek advice and participation from other Federal Agencies, Congressional offices, and industry as appropriate.

Finally, while the DUSD(AR) examines ways to re-engineer DoD's business processes, other DoD components will continue to pursue changes in policies, practices, and regulations to make the existing system function more effectively. These efforts will be coordinated with the DUSD (AR), either directly or through their Steering Group member, to ensure changes are consistent with the approaches being pursued by the Acquisition Reform office.

IMPLEMENTATION

DoD has begun the process of reform by targeting certain segments of the acquisition system that promise to yield immediate and substantial improvements in the acquisition process that will lead to reduced costs and ensure that we maintain our technological superiority, along with a strong, globally competitive national industrial base that can support the nation's future defense needs.

Acquisition reform priorities will evolve as DoD continues to interface with other organizations and entities conducting related efforts, such as the Vice President's National Performance Review, the National Economic Council (working defense conversion), and the Defense Science Board Task Force on Acquisition Streamlining, among others, and as the DUSD(AR) consults with the DoD Acquisition Reform Senior Steering Group.

Many of the DoD initiatives will also require coordination with and support from other agencies, such as the Department of Labor, the Small Business Administration, and various interest groups, such as industry, labor unions, and minority businesses. In addition, many of the initiatives could affect the entire federal government. DoD will work with the Office of Management and Budget, the Office of Federal Procurement Policy, and other federal agencies with major procurement responsibilities, including National Aeronautics and Space Administration, General Services Administration, and the Department of Energy to ensure that when appropriate acquisition reform initiatives are applied consistently throughout the government.

The first initiative was to develop a DoD position on all of the recommendations for legislative change contained in the 1800 page "Section 800" Acquisition Streamlining Panel report (Section 800). The Section 800 panel was. . . Given the number and complexity of the issues, developing that consensus as soon as it was accomplished is a tribute to the interest and dedication to acquisition reform of personnel throughout the department.

DoD placed particular emphasis on two Section 800 proposals: the removal of

impediments to the acquisition of commercial products by waiving government-unique legislative requirements; and, streamlining the acquisition process by increasing the small purchase threshold to \$100,000, while also raising to \$100,000 thresholds for application of legislative provisions that apply only to federal contractors. The remainder of the recommendations fall within the following categories: Contract Formation; Contract Administration; Major Systems and Testing Statutes; Defense Trade and Cooperation; Intellectual Property Rights; Contracting for Commercial Activities; Service Specific Acquisition Laws; and, Standards of Conduct.

After reaching a consensus internally, DoD began working with the Office of Management and Budget (OMB), the Office of Federal Procurement Policy, the General Services Administration, and Vice-President Gore's National Performance Review (NPR) staff on developing proposed legislation expanding the Section 800 recommendations to include all government agencies, and including legislative acquisition proposals from the NPR report. During this time, the Senate had also developed a proposed acquisition reform bill. To avoid confusion, the Administration decided not to introduce its bill. Instead, the Administration working group developed a "line-in-line-out" of the Senate bill, S. 1587 (The Federal Acquisition Streamlining Act of 1993), that incorporated proposed Administration changes to the bill. Time did not permit consideration of the proposed changes during the last session of Congress. It is expected that Congress will begin hearings on this and other acquisition reform legislation in early February.

In addition to working on the formulation of the Administration's position on the Section 800 legislation, DoD submitted to OMB a legislative proposal to waive certain statutes relating to seven pilot program candidates. Congress had requested the submission of pilot program candidates in Section 809 of the National Defense Authorization Act for Fiscal Year 1991, Public Law 101-510. The pilot programs would "jump start" acquisition reform by allowing DoD to immediately buy certain commercial and commercial-like items using commercial practices (while awaiting implementation of the larger legislative effort). It is essential that DoD continues to press for adoption of pilot program authorization because the proposed bill requests legislative relief that is unique to the systems acquisition process, and has not been considered to the extent other recommendations have been (these laws were not reviewed by the Section 800 panel). Finally, even if the "Section 800" broader reform package is enacted, it will take some time for regulations to be revised and personnel to be trained. While waiting for legislative relief DoD is reviewing all recommendation for regulatory relief to assist the programs in utilizing commercial products and processes. Putting the pilot programs in place now will achieve savings earlier while also keeping the momentum for change.

The candidates proposed are: Commercial Derivative Aircraft (CDA); Commercial Derivative Engines (CDE); certain troop support items at the Defense Personnel Support Center (DPSC); Joint Primary Training Aircraft System (JPATS); Joint Direct Attack Munition (JDAM); Fire Support Combined Arms Tactical Trainer (FSCATT); and GLOBAL

GRID. The proposed pilot program bill, due to its inclusion of waivers to many socio-economic statutes, proved controversial within the Administration and agreement was not reached on its provisions until it was too late to be considered as part of the FY94 National Defense Authorization Act. DoD will pursue action on the draft bill in early February, 1994. In the meantime, DoD is reviewing all recommendations for regulatory relief to assist the programs in utilizing commercial products and processes.

DoD also participated in the National Performance Review (NPR) effort by developing its strategy and action plan relating to Acquisition Reform high priority issues. This was done as part of the Defense Performance Review. These priority issues are part of a report awaiting

White House approval and printing.

Finally, DoD formed two PATS, composed of a cross-functional and cross-service and agency, mix of individuals. The first PAT developed a time-phased plan for a 6-month, 12-month, and 24 month implementation of a standard Electronic Commerce/Electronic Data Interchange system for DoD small purchases. The plan provides 'one face to industry,' and utilizes commercially available software, for processing contract actions under the small purchase threshold. This system will allow vendors to connect with commercial Value Added Networks, that will access the entire DoD system at one primary and one backup site, and receive data on all planned purchases. The vendor will be able to provide a quote electronically, and the government to make an award electronically. Individual systems already in place in the services and DLA have shown tremendous improvements in productivity, prices, and small business participation. DoD-wide implementation will begin in January, 1994. The DUSD(AR) is also co-chair of the government-wide EC/EDI team established by the President's October 26, 1993, Executive Memorandum. This will assure DoD and other federal agency EC/EDI efforts are accomplished in a complementary fashion.

The second PAT is addressing the issue of military-unique product and process specifications and standards. This issue is one of the most difficult and complex issues facing DoD. The team was tasked to analyze why government specifications and standards continue to be preferred despite the current (3 year old) policy preference for commercial standards, and develop a plan to implement a preference for commercial and performance standards and specifications unless a government-unique product specification or process standard is the only practical alternative to ensure a product or service will meet the user's needs. The PAT's draft report which includes a detailed and forward-thinking plan of action is being circulated with DoD for comment. Resolution of all comments, and presentation of the final report, including recommended actions, to the USD(A) and Deputy Secretary of Defense, will be accomplished by mid-February. Additional PATs and working groups will be formed throughout 1994 to address other issues critical to acquisition reform.

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